

# PLATINUM INTERNATIONAL HEALTH CARE FUND



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## PERFORMANCE

At the beginning of the year, in particular when the pipeline delivered, big pharma provided a subtle reminder that there is strength left in these companies. However, towards the end of this quarter US politics and safety worries were a theme too prevalent for many to ignore. The drug approval process is under scrutiny, particularly the way safety is being monitored once a drug has been approved. Currently, if in doubt, the FDA is not prepared to let a drug reach the market and approval delays are frequent. The consequences will be an expansion of clinical trial programs; overall unhelpful for company valuations.

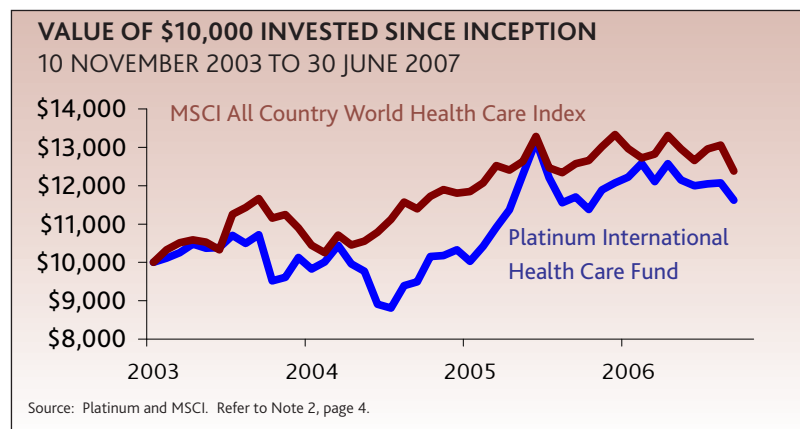
“Biosimilars”, cheaper versions of biological therapies that have lost patent protection, are another touchy subject. While generic versions of small molecules are able to gain approval without lengthy trials in humans, biosimilars are a different story. However, slow progress is being made in the US despite the biotech industry’s continuous efforts in talking up the complexity of these molecules. Meanwhile, the EU regulators continue to set an example and have recommended the approval of additional cheaper versions of biological therapeutics, two being produced by Novartis, one of our holdings.

As we have mentioned previously, the healthcare environment in the US is changing with some resemblance to Europe. Although initial changes will be moderate, the overall message that savings need to occur is growing louder and mediocre drugs or devices will face intense scrutiny.

In light of these challenges uncertainty is prevailing and the well known large biotechs in particular continue to see their valuations decline, while our mid sized biotech holdings are starting to gain attention. Several of them have been diligently selling or preparing to sell their small number of products while at the same time initiating interesting pipeline products.

DISPOSITION OF ASSETS		
REGION	JUN 2007	MAR 2007
NORTH AMERICA	55%	60%
EUROPE	25%	24%
JAPAN	4%	7%
OTHER ASIA (INCL KOREA)	3%	2%
SOUTH AMERICA	2%	1%
CASH	11%	6%
SHORTS	1%	1%

Source: Platinum



Consolidation and licensing demand in the healthcare sector continues to feature and this is fuelling interest in a number of smaller biotechs as well as in the Life Science Tool and Diagnostic sector.

The Healthcare Fund declined 3% for the quarter, while MSCI World Healthcare Index reported -2%. For the year, the Fund was negative 0.7% compared to -1.6% for the MSCI World Healthcare Index.

## CHANGES TO THE PORTFOLIO

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In drug development, setbacks or delays are an expected aspect of the process and companies can have a change of strategy as a consequence. With these thoughts in mind we re-evaluated our smaller biotech holdings and decided to reduce or exit our positions in several of these companies.

At the same time we increased our exposure to profitable and large drug developers where we feel the R&D, the business development capability, and the historical performance are being undervalued.

We added a German company which makes equipment used to manufacture biologic therapeutics. The company is well known for the quality and adaptability of its products, and its service to customers. Most recently the company added to its stable a well-respected provider of disposable cell culturing bags, an area that is growing strongly.

## COMMENTARY

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Continuing to grow in a changing environment and maintaining a very strong R&D focus is a challenge. This is evident in the many treatment providers who have been enjoying the success of very profitable products for a number of years without preparing sufficiently for less exciting and more restrictive times.

For these treatment providers the US has been the market of choice and with its generous pricing it has nurtured an environment of “me-too” treatment ideas. However, coasting along a comfortable road may lead to backwaters, particularly in the coming months with US elections looming and with discussions about the flaws of the system, how to save money and what has to change. Attention very quickly turns to drug developers as the prices of their products continue to rise with no end in sight.

Nonetheless, compared to the mid ‘90s when proposals for healthcare changes were close to becoming reality, companies today are better prepared in several ways. There is a strong understanding that a pipeline is a necessity and that biotech and pharma should work together. A big step in the right direction.

Acquisitions and licensing remain popular activities but are only part of the solution for company growth. There are limitations to these strategies, such as the availability of outstanding opportunities at a reasonable price, and how to manage the myriad of alliances.

Another popular strategy to compensate for changes in the US is geographical expansion, into countries such as Latin America, China and Russia. This strategy is a complex endeavour as healthcare systems differ from country to country as do regulatory guidelines and reimbursement structures. There is a lot of building and research activity to be done first; “Tiger teams” are being sent to China to better understand the market, R&D centres are being opened in Asia and clinical trial programs are increasingly being conducted in

Eastern Europe and Russia. There is significant growth within these markets as the chart below highlights and companies are making progress with benefits gradually becoming visible.

Being a broader healthcare provider is also a theme with companies adding generic drug divisions, Over-the-Counter (OTC) items and consumer health products. Each one of these categories has the advantage of reduced regulatory risk and a lower dependency on government and other support.

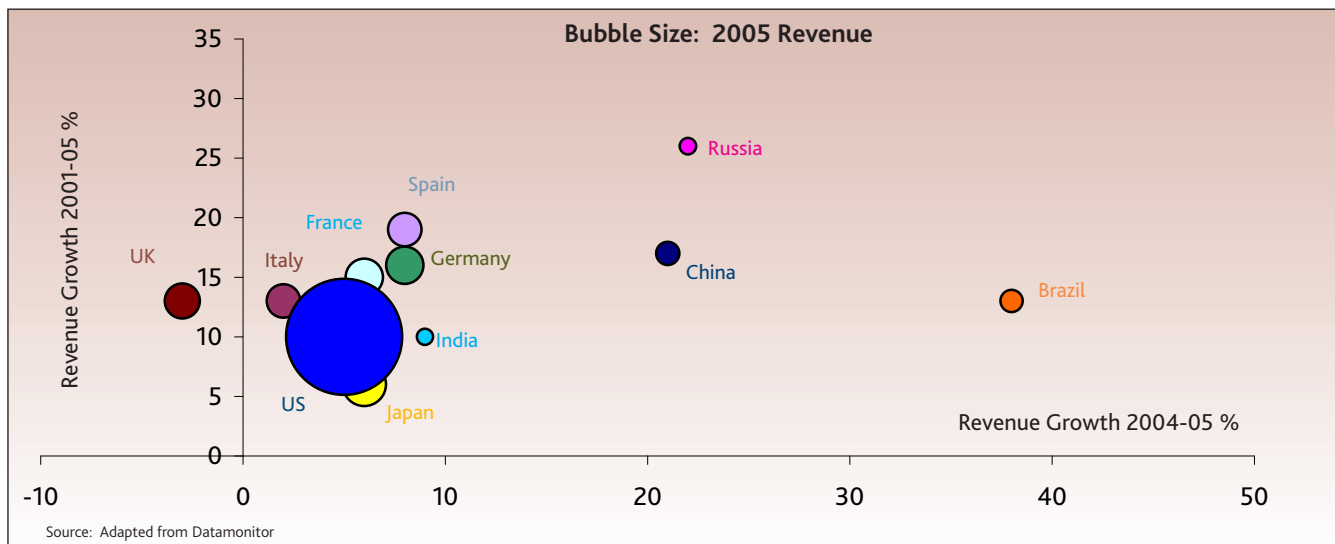
Providers of generic drugs have also evolved - “being global” is already part of their business. Competition is fierce within this industry with the general assumption being that profitability is volatile and the US market is the only one that counts. Interestingly, there are companies within this sector that have managed to differentiate themselves by tackling markets outside the US and by having a mixture of different types of generic drugs, ranging from commodity generics to cheaper versions of biological therapies and real patent-protected products.

While the ongoing political debate in the US does have its drawbacks, it also offers opportunities that are currently being dismissed. The same can apply to “unconventional” ways of drug development.

## OUTLOOK

Political chatter will continue this year but more important for the sector will be the clinical results of several companies in the following months. In addition, a number of regulatory decisions are anticipated for both pharma and biotech. As the growth rates of companies such as Amgen and Genentech is slowing, the focus has already shifted to the subsequent groups of biotechs and most likely will continue to do so as their credibility increases. The scrutiny on safety and demand for large clinical trial programs by regulators does add a complex issue for biotechs and makes their financial capabilities an even more important aspect to monitor. As a consequence, one would expect further consolidation and licensing deals among companies.

Overall, this year may provide the start of a number of changes in the US and thus we will keep close to our theme of looking at developments outside this geographic location.



## NOTES

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1. The investment returns are calculated using the Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that past performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

2. The investment returns depicted in the graphs are cumulative on A\$10,000 invested in the relevant Fund since inception relative to their Index (in A\$) as per below:

Platinum International Fund:  
Inception 1 May 1995, MSCI All Country World Net Index

Platinum Unhedged Fund:  
Inception 31 January 2005, MSCI All Country World Net Index

Platinum Asia Fund:  
Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:  
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:  
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:  
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:  
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:  
Inception 18 May 2000, MSCI All Country World Information Technology Index

(nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist).

The investment returns are calculated using the Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

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Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds.

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